

(3)(i) Has a maximum contractual exposure amount (drawn plus undrawn) of up to \$100,000; or

(ii) With respect to a product with an outstanding amount that the borrower is required to pay in full every month, the total outstanding amount does not in practice exceed \$100,000.

(4) A segment of exposures that contains one or more exposures that fails to meet paragraph (3)(ii) of this definition must be treated as a segment of other retail exposures for the 24 month period following the month in which the total outstanding amount of one or more exposures individually exceeds \$100,000.

Retail exposure means a residential mortgage exposure, a qualifying revolving exposure, or an other retail exposure.

Retail exposure subcategory means the residential mortgage exposure, qualifying revolving exposure, or other retail exposure subcategory.

Risk parameter means a variable used in determining risk-based capital requirements for wholesale and retail exposures, specifically probability of default (PD), loss given default (LGD), exposure at default (EAD), or effective maturity (M).

Scenario analysis means a systematic process of obtaining expert opinions from business managers and risk management experts to derive reasoned assessments of the likelihood and loss impact of plausible high-severity operational losses. Scenario analysis may include the well-reasoned evaluation and use of external operational loss event data, adjusted as appropriate to ensure relevance to a national bank's or Federal savings association's operational risk profile and control structure.

Total wholesale and retail risk-weighted assets means the sum of:

(1) Risk-weighted assets for wholesale exposures that are not IMM exposures, cleared transactions, or default fund contributions to non-defaulted obligors and segments of non-defaulted retail exposures;

(2) Risk-weighted assets for wholesale exposures to defaulted obligors and segments of defaulted retail exposures;

(3) Risk-weighted assets for assets not defined by an exposure category;

(4) Risk-weighted assets for non-material portfolios of exposures;

(5) Risk-weighted assets for IMM exposures (as determined in § 3.132(d));

(6) Risk-weighted assets for cleared transactions and risk-weighted assets for default fund contributions (as determined in § 3.133); and

(7) Risk-weighted assets for unsettled transactions (as determined in § 3.136).

Unexpected operational loss (UOL) means the difference between the national bank's or Federal savings association's operational risk exposure and the national bank's or Federal savings association's expected operational loss.

Unit of measure means the level (for example, organizational unit or operational loss event type) at which the national bank's or Federal savings association's operational risk quantification system generates a separate distribution of potential operational losses.

Wholesale exposure means a credit exposure to a company, natural person, sovereign, or governmental entity (other than a securitization exposure, retail exposure, pre-sold construction loan, or equity exposure).

Wholesale exposure subcategory means the HVCRE or non-HVCRE wholesale exposure subcategory.

QUALIFICATION

§ 3.121 Qualification process.

(a) *Timing.* (1) A national bank or Federal savings association that is described in § 3.100(b)(1)(i) through (iv) must adopt a written implementation plan no later than six months after the date the national bank or Federal savings association meets a criterion in that section. The implementation plan must incorporate an explicit start date no later than 36 months after the date the national bank or Federal savings association meets at least one criterion under § 3.100(b)(1)(i) through (iv). The OCC may extend the start date.

(2) A national bank or Federal savings association that elects to be subject to this appendix under § 3.100(b)(1)(v) must adopt a written implementation plan.

(b) *Implementation plan.* (1) The national bank's or Federal savings association's implementation plan must address in detail how the national bank or Federal savings association complies, or plans to comply, with the qualification requirements in §3.122. The national bank or Federal savings association also must maintain a comprehensive and sound planning and governance process to oversee the implementation efforts described in the plan. At a minimum, the plan must:

(i) Comprehensively address the qualification requirements in §3.122 for the national bank or Federal savings association and each consolidated subsidiary (U.S. and foreign-based) of the national bank or Federal savings association with respect to all portfolios and exposures of the national bank or Federal savings association and each of its consolidated subsidiaries;

(ii) Justify and support any proposed temporary or permanent exclusion of business lines, portfolios, or exposures from the application of the advanced approaches in this subpart (which business lines, portfolios, and exposures must be, in the aggregate, immaterial to the national bank or Federal savings association);

(iii) Include the national bank's or Federal savings association's self-assessment of:

(A) The national bank's or Federal savings association's current status in meeting the qualification requirements in §3.122; and

(B) The consistency of the national bank's or Federal savings association's current practices with the OCC's supervisory guidance on the qualification requirements;

(iv) Based on the national bank's or Federal savings association's self-assessment, identify and describe the areas in which the national bank or Federal savings association proposes to undertake additional work to comply with the qualification requirements in §3.122 or to improve the consistency of the national bank's or Federal savings association's current practices with the OCC's supervisory guidance on the qualification requirements (gap analysis);

(v) Describe what specific actions the national bank or Federal savings asso-

ciation will take to address the areas identified in the gap analysis required by paragraph (b)(1)(iv) of this section;

(vi) Identify objective, measurable milestones, including delivery dates and a date when the national bank's or Federal savings association's implementation of the methodologies described in this subpart will be fully operational;

(vii) Describe resources that have been budgeted and are available to implement the plan; and

(viii) Receive approval of the national bank's or Federal savings association's board of directors.

(2) The national bank or Federal savings association must submit the implementation plan, together with a copy of the minutes of the board of directors' approval, to the OCC at least 60 days before the national bank or Federal savings association proposes to begin its parallel run, unless the OCC waives prior notice.

(c) *Parallel run.* Before determining its risk-weighted assets under this subpart and following adoption of the implementation plan, the national bank or Federal savings association must conduct a satisfactory parallel run. A satisfactory parallel run is a period of no less than four consecutive calendar quarters during which the national bank or Federal savings association complies with the qualification requirements in §3.122 to the satisfaction of the OCC. During the parallel run, the national bank or Federal savings association must report to the OCC on a calendar quarterly basis its risk-based capital ratios determined in accordance with §3.10(b)(1) through (3) and §??10.(c)(1) through (3). During this period, the national bank's or Federal savings association's minimum risk-based capital ratios are determined as set forth in subpart D of this part.

(d) *Approval to calculate risk-based capital requirements under this subpart.* The OCC will notify the national bank or Federal savings association of the date that the national bank or Federal savings association must begin to use this subpart for purposes of §3.10 if the OCC determines that:

(1) The national bank or Federal savings association fully complies with all

the qualification requirements in § 3.122;

(2) The national bank or Federal savings association has conducted a satisfactory parallel run under paragraph (c) of this section; and

(3) The national bank or Federal savings association has an adequate process to ensure ongoing compliance with the qualification requirements in § 3.122.

§ 3.122 Qualification requirements.

(a) *Process and systems requirements.*

(1) A national bank or Federal savings association must have a rigorous process for assessing its overall capital adequacy in relation to its risk profile and a comprehensive strategy for maintaining an appropriate level of capital.

(2) The systems and processes used by a national bank or Federal savings association for risk-based capital purposes under this subpart must be consistent with the national bank's or Federal savings association's internal risk management processes and management information reporting systems.

(3) Each national bank or Federal savings association must have an appropriate infrastructure with risk measurement and management processes that meet the qualification requirements of this section and are appropriate given the national bank's or Federal savings association's size and level of complexity. Regardless of whether the systems and models that generate the risk parameters necessary for calculating a national bank's or Federal savings association's risk-based capital requirements are located at any affiliate of the national bank or Federal savings association, the national bank or Federal savings association itself must ensure that the risk parameters and reference data used to determine its risk-based capital requirements are representative of its own credit risk and operational risk exposures.

(b) *Risk rating and segmentation systems for wholesale and retail exposures.*

(1) A national bank or Federal savings association must have an internal risk rating and segmentation system that accurately and reliably differentiates among degrees of credit risk for the na-

tional bank's or Federal savings association's wholesale and retail exposures.

(2) For wholesale exposures:

(i) A national bank or Federal savings association must have an internal risk rating system that accurately and reliably assigns each obligor to a single rating grade (reflecting the obligor's likelihood of default). A national bank or Federal savings association may elect, however, not to assign to a rating grade an obligor to whom the national bank or Federal savings association extends credit based solely on the financial strength of a guarantor, provided that all of the national bank's or Federal savings association's exposures to the obligor are fully covered by eligible guarantees, the national bank or Federal savings association applies the PD substitution approach in § 3.134(c)(1) to all exposures to that obligor, and the national bank or Federal savings association immediately assigns the obligor to a rating grade if a guarantee can no longer be recognized under this part. The national bank's or Federal savings association's wholesale obligor rating system must have at least seven discrete rating grades for non-defaulted obligors and at least one rating grade for defaulted obligors.

(ii) Unless the national bank or Federal savings association has chosen to directly assign LGD estimates to each wholesale exposure, the national bank or Federal savings association must have an internal risk rating system that accurately and reliably assigns each wholesale exposure to a loss severity rating grade (reflecting the national bank's or Federal savings association's estimate of the LGD of the exposure). A national bank or Federal savings association employing loss severity rating grades must have a sufficiently granular loss severity grading system to avoid grouping together exposures with widely ranging LGDs.

(3) For retail exposures, a national bank or Federal savings association must have an internal system that groups retail exposures into the appropriate retail exposure subcategory, groups the retail exposures in each retail exposure subcategory into separate segments with homogeneous risk characteristics, and assigns accurate and